Narnolia™

ASHOK LEYLAND LIMITED

Industry	AUTOMOBILES
Bloomberg	AL IN
BSE Code	500477
NSE Code	ASHOKLEY

24 May 2018

RATING	BUY
CMP	145
Price Target	172
Previous Target	159
Potential Upside	19%

Stock Info

52wk Range H/L	168/82
Mkt Capital (Rs Cr)	41,383
Free float (%)	49%
Avg. Vol 1M (,000)	17614
No. of Shares (Crore)	293
Promoters Pledged %	2%

Multiple growth drivers ahead

Key Highlights

- ☑ Ashok Leyland is the second largest commercial vehicle manufacturer in India with market share of over 33%. The volumes have grown at 18% CAGR over FY14-18. The company reported 20% of volume growth and 31% of revenue growth in FY18. Management's decision to impair all loss making business and focus towards its core commercial vehicle business has resulted the multifold growth in PAT. Going ahead we expect Revenue and PAT to grow at 15% and 30% CAGR over FY18-20.
- ☑ Despite commodity headwinds margins were protected over double digit in FY18. Shift in product mix towards MHCV segment and better operating leverage to drive further 150 bps margin improvement over next 2 years.
- ☑ Ashok Leyland is looking to invest Rs.400 crores over the next couple of years towards development of new LCV platform and also aims to double its market share to 30% from current 16% post 2020.
- ☑ On the standalone basis it has become net debt free and generates strong cash to fulfill its future expansion requirements.

4Q FY18 Result:

Ashok Leyland has continued its growth streak and posted revenue growth of over 30% for the third consecutive quarter. This growth was primarily driven by 23%YoY volume growth and 7%YoY realization growth. The M&HCV volumes grew by robust 15%YoY while LCV volumes grew by 59%YoY. Despite sharp rise in commodity prices company was able to expand EBITDA margin by 80bps to 11.8% on the back of price hikes and operating leverage benefit arising from higher volumes. Lower tax expenses and higher income fostered PAT by 35%YoY to Rs.668 crores during 4QFY18.

View and Valuation

Going forward we expect healthy infra & mining segment demand scenario, pre buying expectation due to BS-VI implementation, upcoming mandatory scrappage policy and management's thrust to make defense business sizable are the leading growth drivers for next couple of years. Shift in product mix in favor of MHCV segment and better operating leverage to drive further 150 bps margin improvement over next 2 years. We value it at 19x FY20E EPS and arrive at a target price of Rs.172. Recommend BUY.

Key Risks to our rating and target

- ♦ Increase in interest rates can slow down overall commercial vehicle industry
- ♦ Shift in product mix towards LCVs can bring down the realization

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	18937	20019	26248	30140	34492
EBITDA	2255	2203	2739	3284	4122
EBIT	1767	1685	2184	2696	3508
PAT	390	1223	1563	2018	2658
EPS (Rs)	4.2	5.5	5.4	6.9	9.1
EPS growth (%)	413	30	-2	28	32
ROE (%)	7.2	20.0	21.8	23.8	26.1
ROCE (%)	24.4	23.2	28.8	31.4	34.4
BV	19	22	24	29	35
P/B (X)	5.7	3.9	6.6	5.0	4.2
P/E (x)	26	15	30	21	16

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4Q FY 18 Results
In line

Robust Performance

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Total Volumes	47,621	28,484	40,985	46,627	58,735	23.3%	26.0%			#DIV/0!
Net Sales	6,618	4,238	6,047	7,113	8,772	32.6%	23.3%	20,019	26,248	31.1%
Other Income	40	38	56	38	58	43.0%	52.1%	136	190	39.3%
COGS	4,760	2,942	4,307	5,082	6,306	32.5%	24.1%	13,957	18,621	33.4%
Gross Margin	28%	31%	29%	29%	28%	0.0%	-0.4%	30%	29%	-1.2%
Employee Cost	412	438	482	492	455	10.5%	-7.5%	1,531	1,812	18.4%
Other Expenses	716	552	645	751	979	36.7%	30.3%	2,328	3,076	32.1%
EBITDA	730	306	612	788	1,033	41.5%	31.0%	2,203	2,739	24.4%
EBITDA Margin	11%	7%	10%	11%	12%	0.7%	0.7%	11%	10%	-0.6%
Depreciation	139	132	141	135	146	4.9%	8.3%	518	555	7.1%
EBIT	590	174	471	653	886	50.1%	35.7%	1,685	2,184	29.7%
Interest	42	37	41	34	20	-53%	-40.2%	155	131	-15.5%
PBT	588	176	485	658	924	57.0%	40.5%	1,666	2,243	34.7%
Exceptional	351	13	-	-	(0)	0.0%	0.0%	(351)	(13)	-96.4%
Tax	(216)	49	148	208	263	-221.7%	26.3%	107	668	524.4%
PAT	495	108	334	450	668	34.8%	48.5%	1,223	1,563	27.8%
PAT Margin	7%	3%	6%	6%	8%	0.1%	1.3%	6%	6%	-0.2%

Strong higher tonnage led volumes boosted revenue growth

Ashok Leyland has continued its growth streak and posted revenue growth of over 30% for the third consecutive quarter. This growth was primarily driven by 23%YoY volume growth and 7%YoY realization growth.

The M&HCV volumes grew by robust 15%YoY while LCV volumes grew by 59%YoY. The growth in MHCV segment was largely attributed to stricter overloading norms in UP and Rajasthan, increasing demand for the new tonnage vehicles and infrastructure development activities led by government funding. LCV segment demand was triggered by new product launches and increasing penetration of FMCG products in rural areas. Sales of higher tonnage vehicles coupled with price hikes resulted in 7% increase in realization during 4QFY18.

Margin expansion despite increase in raw material prices

Despite sharp rise in commodity prices company was able to expand EBITDA margin by 80bps to 11.8% on the back of price hikes and operating leverage benefit arising from higher volumes.

Higher other income and lower tax boosted PAT growth

Lower tax expenses and higher income fostered PAT by 35%YoY to Rs.668 crores during 4QFY18. PAT margin for the quarter stood at 7.6%.

Revenue growth of 31%YoY and PAT growth of 28%YoY in FY18

The company posted sturdy performance in FY18. Revenue grew by 31%YoY to Rs.26248 crores on the back of strong volume growth. Higher commodity prices and higher discounting during the year restricted the PAT to Rs. 1563 crores.

Concall Highlights :

- ✓ Pre-buying led by BS-VI implementation can happen in 2HFY20.
- ✓ The management expects 6-8% increase in prices after BS-VI implementation
- ✓ The company will be investing Rs.400 crores over the next 3 years on LCV business
- ✓ Defense business to become Rs.5000 crores in next 5 years from Rs.750 crores currently
- ✓ The management is confident of 10-12% volume growth in FY19 on the back of strong infra and mining demand.
- ✓ Scrappage policy may get implemented from 1st April 2020: 20 years old vehicles market is 2-2.25 lakh units and 15 years old vehicles market is 6-6.5 lakh units
- ✓ Foundry business EBITDA for the full year was 5% and the management expects it to increase going ahead.
- ✓ The company will be able to protect its margins going ahead on account of price hikes in line with cost increase and other cost cutting initiatives.

Exhibit: Volume Trend

Strong demand from infrastructure, mining, logistics segments coupled with overloading norms have driven volume growth

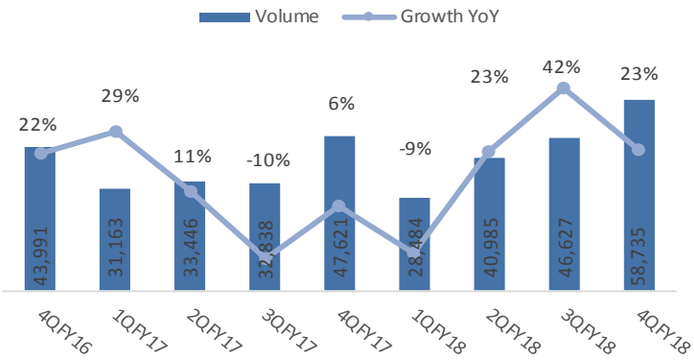


Exhibit: Realization Trend

Shift in product mix towards LCVs led to 2%QoQ decline in realization in 4QFY18

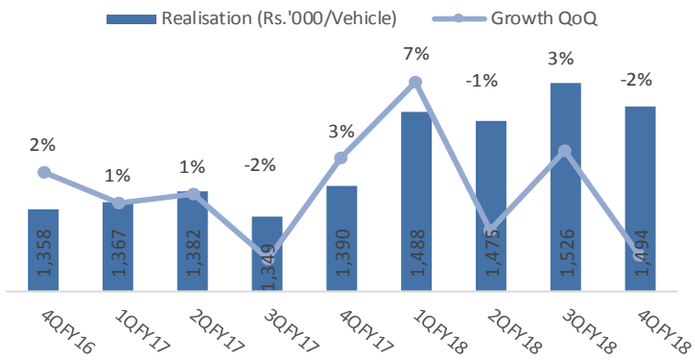


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

EBITDA margin expanded by 80bps YoY driven by price hikes and operating leverage benefits

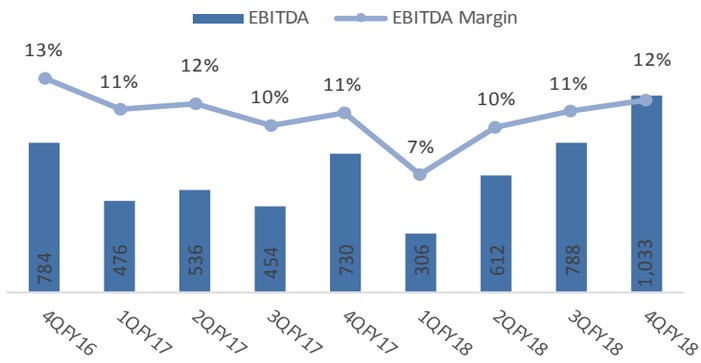


Exhibit: PAT (Rs. Crore) and PAT Margin trend

Lower tax expenses and higher other income boosted the PAT growth for 4QFY18

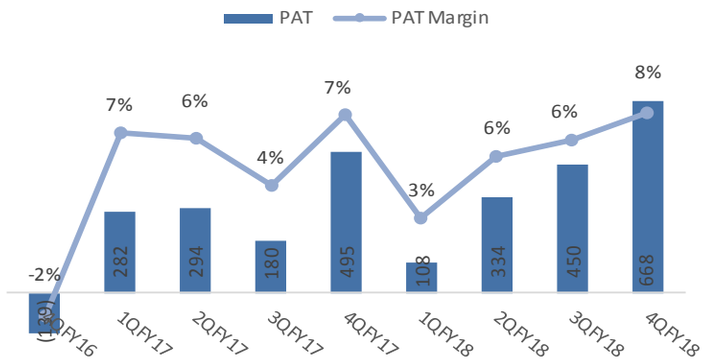


Exhibit: Market Share of M&HCV Segment

Ashok Leyland has gained over 7% market share in last 6 years

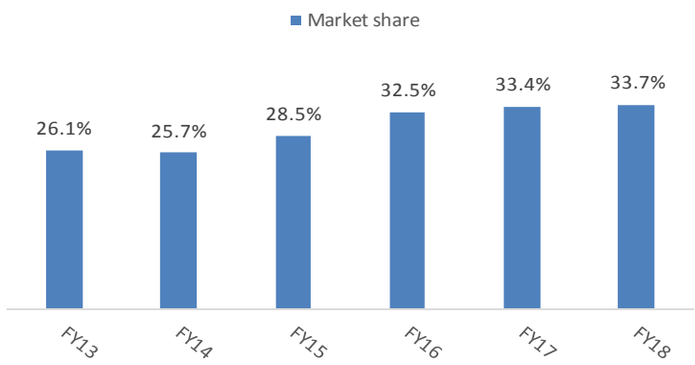
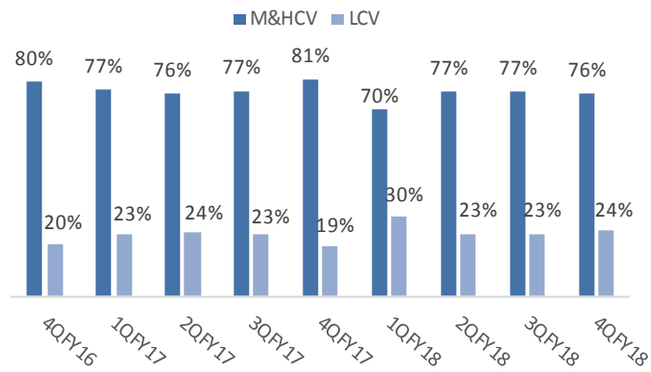


Exhibit: Product Mix in M&HCV Segment

Product mix largely remains in favour of MHCVs



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	266	266	285	285	285	293	293	293
Reserves	4,189	4,182	4,834	5,123	5,841	6,872	8,181	9,904
Networth	4,455	4,448	5,119	5,408	6,126	7,165	8,473	10,196
Debt	3,505	3,884	2,591	1,846	1,345	516	166	25
Other Non Current Liab	608	477	591	481	299	757	795	837
Total Capital Employed	7,193	7,744	7,685	7,229	7,272	7,580	8,589	10,196
Net Fixed Assets (incl CWIP)	5,971	5,841	5,376	4,868	5,177	5,375	5,639	5,675
Non Current Investments	2,338	2,405	2,240	1,980	2,002	2,747	2,700	3,986
Other Non Current Assets	492	1,035	1,002	633	588	509	509	509
Non Current Assets	8,800	9,281	8,618	7,593	7,940	8,717	8,932	10,255
Inventory	1,896	1,189	1,399	1,625	2,501	1,710	2,312	2,646
Debtors	1,419	1,299	1,258	1,251	860	980	1,321	1,512
Cash & Bank	14	12	751	1,593	912	1,004	946	1,111
Other Current Assets	967	1,027	1,285	586	1,312	3,797	4,249	4,879
Current Assets	4,297	3,527	4,693	5,181	5,737	7,870	9,205	10,525
Creditors	2,485	2,214	2,828	2,563	3,052	4,659	4,955	5,670
Provisions	309	88	256	189	484	616	708	810
Other Current Liabilities	1,735	1,697	1,926	2,113	2,446	2,861	3,040	3,241
Curr Liabilities	4,529	3,999	5,011	4,865	5,982	8,147	8,702	9,721
Net Current Assets	(233)	(472)	(318)	316	(246)	(277)	503	804
Total Assets	13,097	12,808	13,311	12,774	13,800	16,586	18,138	20,780

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenue from Operation	**12,481**	**9,943**	**13,562**	**18,937**	**20,019**	**26,248**	**30,140**	**34,492**
Change (%)	(3)	(20)	36	40	6	31	15	14
Other Income								
EBITDA	**876**	**117**	**1,027**	**2,255**	**2,203**	**2,739**	**3,284**	**4,122**
Change (%)	(30)	(87)	778	120	(2)	24	20	26
Margin (%)	7	1	8	12	11	10	11	12
Depr & Amor.	381	377	416	488	518	555	587	613
EBIT	**496**	**(260)**	**610**	**1,767**	**1,685**	**2,184**	**2,696**	**3,508**
Int. & other fin. Cost	377	453	394	248	155	131	50	16
Other Income	62	116	124	118	136	190	196	251
EBT	**181**	**(597)**	**341**	**1,637**	**1,666**	**2,243**	**2,842**	**3,743**
Exp Item	290	506	101	(815)	(351)	(13)	-	-
Tax	37	(121)	107	437	107	668	824	1,086
Minority Int & P/L share of Ass.								
Reported PAT	434	29	335	390	1,223	1,563	2,018	2,658
Adjusted PAT								
Change (%)	(23)	(93)	1,040	16	214	28	29	32
Margin(%)	3	0	2	2	6	6	7	8

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
ROE	10%	1%	7%	7%	20%	22%	24%	26%
ROCE	7%	-3%	8%	24%	23%	29%	31%	34%
Asset Turnover	1.0	0.8	1.0	1.5	1.5	1.6	1.7	1.7
Debtor Days	42	48	34	24	16	14	16	16
Inv Days	55	44	38	31	46	24	28	28
Payable Days	73	81	76	49	56	65	60	60
Int Coverage	1	(1)	2	7	11	17	54	217
P/E	13	215	29	79	19	30	21	16
Price / Book Value	1.3	1.4	1.9	5.7	3.9	6.6	5.0	4.2
EV/EBITDA	10	100	15	16	14	20	16	10
FCF per Share	84	349	1,571	1,533	1,789	4,558	1,371	3,064
Div Yield	3%	0%	1%	1%	2%	2%	1%	2%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT	471	(91)	442	1,169	1,223	2,243	2,842	3,743
(inc)/Dec in Working Capital	(49)	370	705	(128)	190	3,000	(434)	426
Non Cash Op Exp	381	377	416	444	518	555	587	613
Int Paid (+)	377	453	394	274	155	131	50	16
Tax Paid	(110)	(30)	(50)	(441)	(348)	(668)	(824)	(1,086)
others	(342)	(523)	(130)	358	13	51	-	-
CF from Op. Activities	**728**	**556**	**1,777**	**1,676**	**2,155**	**5,312**	**2,222**	**3,714**
(inc)/Dec in FA & CWIP	(649)	(220)	(211)	(147)	(378)	(753)	(851)	(650)
Free Cashflow	79	337	1,565	1,529	1,776	4,558	1,371	3,064
(Pur)/Sale of Inv	(99)	481	(49)	854	(2,166)	(2,924)	(297)	(1,797)
others	(2)	138	387	154	(28)	-	-	-
CF from Inv. Activities	**(1,164)**	**(110)**	**102**	**388**	**(1,477)**	**(3,677)**	**(1,148)**	**(2,447)**
inc/(dec) in NW	243	(7)	671	289	719	1,039	1,308	1,723
inc/(dec) in Debt	1,100	183	(1,424)	(783)	(773)	(829)	(350)	(141)
Int. Paid	(363)	(436)	(406)	(296)	(164)	(131)	(50)	(16)
Div Paid (inc tax)	(309)	(187)	-	(154)	(325)	(549)	(710)	(935)
others	-	-	667	-	-	-	-	-
CF from Fin. Activities	**417**	**(449)**	**(1,179)**	**(1,233)**	**(1,372)**	**(1,510)**	**(1,110)**	**(1,091)**
Inc(Dec) in Cash	(19)	(2)	699	830	(694)	125	(36)	175
Add: Opening Balance	**27**	**8**	**5**	**705**	**1,563**	**869**	**994**	**935**
Closing Balance	8	5	705	1,538	869	993	957	1,110

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